Contents

I Introduction, scope and caveats

Introduction

- The team involved on this assignment is a combined team from PwC Mansour & Co in Egypt ("PwC Mansour Egypt") and PwC London. The Bondholders expressly requested that the Business Recovery Services team in London provide advice and support.

- PwC Mansour Egypt were engaged on 28 February 2001 following initial conversations with Barclays, as representatives of the Bond holder group, and Mr Ramy Lakah. The terms of our engagement are set out in the Bondholders' letter of 28 February 2001, as modified by subsequent correspondence. PwC London agreed to provide its services to PwC Mansour Egypt, and subsequently agreed to take overall responsibility for the engagement and preparation of the Report.

- In summary we were instructed to review the financial position as at 1 January 2001, and projections and prospects of the Lakah Group ("the Group"), to identify its ability to service its debts and interest payable with specific reference to the 2004 12% US$ bonds ("the Euro Bonds"). In particular we were asked to look at the impact of the Egyptian economic situation and the opportunities for new income sources from UN contracts and otherwise. Also we were asked to consider and report on the options available to the Bondholders.

- Our engagement came against the background of difficulties that the Group had identified in paying the Euro Bond coupon of US$6.1 million due on 8 June 2001. The Group had indicated that it did not believe it would have adequate resources to pay the coupon and requested a waiver.

- The Bond holder group met in Cairo on 1 June 2001. Due to the absence of 100% Bondholder representation, they were not in a position to consider a waiver but agreed in principle to put in place a standstill agreement, subject to receiving this Report and discussion of its implications by the Bondholder group. The Group defaulted on the June coupon on 13 June 2001.

I Introduction, scope and caveats (continued)

Other PwC Involvement with the Group

- You are aware that PwC Mansour Egypt has been engaged by Lakah Holdings to act as its joint auditors with RSM Cherif Hamouda for the year to 31 December 2001. As at the date of this report, we had not performed any work in relation to the audit.
- PwC Mansour Egypt have been engaged to perform due diligence work for the sellers in relation to the prospective disposal of the Scandinavian Company for Touristic Investments (Sharm El-Sheik hotel), and the investment in MidWest Airline. It is proposed that the proceeds of these disposals be made available to the Bondholders.
- PwC Mansour Egypt have carried out due diligence work in respect of Indigo, a feasibility study for a fast food chain and a feasibility study for the Scandinavian company for Tourist Investments (Sharma El-Sheik hotel).
- We do not believe that these engagements cause any conflict of interest to arise with regard to this assignment. We understand that you are aware of these engagements.

Scope and limitations of our work

- Our fieldwork started on Monday 30 April 2001 and ended on 28 June 2001, since which time we have been compiling this Report and collating the information we have gathered. There was a gap of four weeks in our fieldwork between Monday 14 May and Friday 8 June. This was to enable the Group to revise the projections in the light of our comments, prepare projections for the non-trading companies (that have receivables and payables in their balance sheets) and complete the production of the remaining historical documentation required for our work. In addition, the Group had to prepare proposals for the informal Bondholder meeting on 1 June 2001.
- We have received the co-operation of senior management and staff in carrying out our work. In this regard it is important to recognise that such staff have been subjected to an unusually high level of pressure and burden on their time during the year.

I Introduction, scope and caveats (continued)

Scope and limitations of our work (continued)

- We must record the exceptional level of support given to this project by Mr Ramy Lakah, and the very considerable commitment and assistance of Mr Brian Murphy.
- We have also had discussions with the management of the operating companies. Our discussions with operating company managers were at arranged meetings, some of which were held in their premises and which were usually also attended by Ramy Lakah.
- However, it is important to note that the flow of documentation from the Group has been slow, and not all requested documentation was received, although there has been a general willingness to provide documentation.
- Specific issues have included the ordinary difficulties of operating in an Egyptian environment, including rudimentary accounting systems and the substantial reductions in staff numbers and reorganisations of operations in the Group in the past year in response to rapidly changing market conditions. These issues, and the diversion of resources to pursue substantial market opportunities, have constrained the ability of the Group to produce documentation, mainly historical, on a timely basis, and to hold as many meetings with subsidiary management as we would have otherwise wished.
- Notwithstanding these limitations and the short period of effective fieldwork limiting the depth of our work on the nine substantive companies within the Group, we consider that we have been able to carry out sufficient work to meet the requirements of the engagement.
- We have not held any discussions with the Egyptian Banks (the "Local Banks"), or any of the Central Bank of Egypt and the Ministries of Economy and Health in Egypt. We understand that representatives of the Bondholder Group have held discussions with at least some of these.

I Introduction, scope and caveats (continued)

Caveats

- Our work has been based on information and documentation supplied to us by the Group and discussions with its directors, officers and management. We have not carried out an audit of the information provided to us, which remains the responsibility of the Group and its management and other than in a few instances, we have not verified information provided to the underlying documentation.
- The projected income statements and cash flow projections included and reflected in this report relate to future events. They are based on management's assumptions that may not remain valid for the period. Any such projection is fraught with uncertainty, especially so where revenue and cash flow is heavily dependent upon liquidity in the Egyptian economy. At the date of this Report, there is a severe lack of liquidity and the future development of the situation is unclear.
- Accordingly we cannot, and do not, express an opinion as to how closely the actual position may correspond to that shown in the projections. Where sensitivities are applied to management's projections, this is for illustrative purposes only and the sensitised projections should not be considered, or referred to, as PricewaterhouseCoopers' projections.

Issues relating to quality of information, financial systems and controls

- We have not been engaged to undertake a review of these areas. However, we have a number of observations that arose during the course of our work, which relate to these areas and may be of relevance to the Bondholders and the Group. Such observations are included either below or within our Report.
- The Group does not produce formal management accounts, whether monthly, quarterly or otherwise.
- Accounting systems are entirely manual or spreadsheet-based. In part, this is due to the Egyptian tax laws that require records to be paper-based and the difficulty of obtaining suitably trained staff.

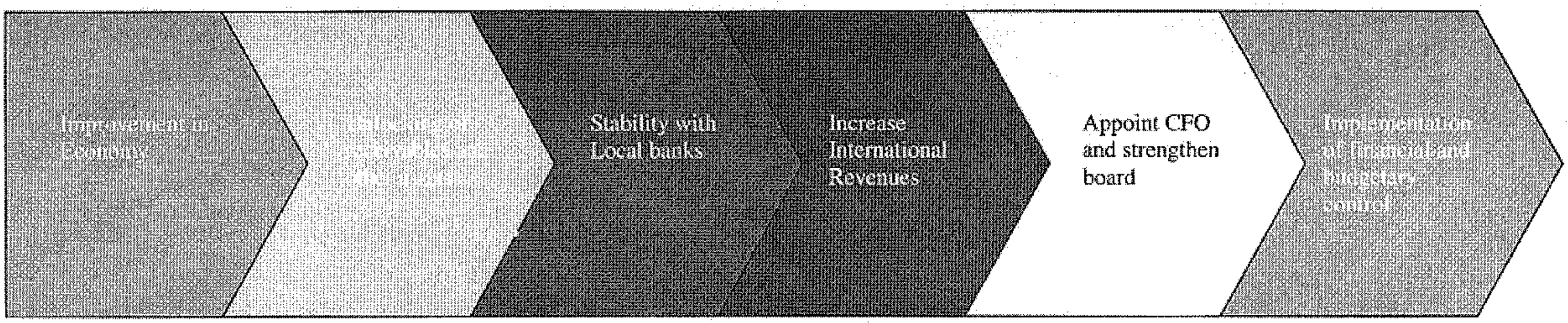
I Introduction, scope and caveats (continued)

Limitations in the use of this Report

- This report is supplied on the understanding that it is solely for the use of the Bondholders and the Group in connection with the ongoing discussions with them. No persons other than the Bondholders may rely on it for any purpose whatsoever. It must not be copied in whole or in part to any other person without our express permission, which will not be unreasonably withheld, on condition of receipt of a 'hold harmless' letter.

Critical success factors for the Group

- Critical success factors ("CSFs") are those areas that "must go right" for the Group to survive and flourish. The CSFs for the Group are as follows:



Summary of Group Companies

Name	Location of operations	Size	Business
Holding Company for Financial Investments (Lakah Group) SAE ("Holding Company")	Egypt		▪ Holding Company for the Group. ▪ Listed in Egypt and Luxembourg. ▪ 53% owned by Ramy and Michel Lakah, 7% by Banque du Caire. ▪ Issued LE 400 million bond guaranteed by Banque du Caire. ▪ Recipient of Eurobond proceeds and guarantor.
Medequip for Trading and Contracting SAE ("Medequip")	Egypt, Middle East, North & West Africa and Turkey	T/o LE 272m (2000), LE 486m (1999) EBIT projection nil (2001), LE 47m (2002)	▪ Principal operating company within the Group – more than 50% of Group sales and gross profit. ▪ Prime contractor for turn-key hospitals and other medical facilities – Egypt and Middle East ▪ Sale and maintenance of high tech medical equipment – agent for Egypt (and other regions for some products) for Olympus, Agilent etc. ▪ Guarantor of Eurobonds.
Trading Medical Systems Egypt SAE ("TMSE")	Egypt, Middle East, North & West Africa and Turkey	T/o LE 92m (2000), LE 152m (1999) Projected EBIT LE (5)m (2001), LE 16m (2002)	▪ Sale and maintenance of Toshiba medical imaging equipment – ultrasound, CT Scanners and MRI equipment. ▪ Guarantor of Eurobonds.
Medical Centres Management Co SAE ("MCMC")	Egypt	T/o LE 4m (2000, LE 70m (1999)	▪ Operation of medical imaging centres in Government-owned hospitals. ▪ Severely impacted by slow-down in Government healthcare spending.
Quest Consulting SAE ("Quest")	Egypt, Middle East	Nominal t/o in 2000 (<LE 1m)	▪ Provider of specialist fit-out services for hospitals and clinics. ▪ Formerly provided services to the market generally; now a supplier to Medequip only. ▪ Operates from 2001 as a division of Medequip.
Industrial Investment Company SAE ("IIC")	Egypt	T/o LE 56m (2000), LE 13m (1999) Projected EBIT LE 10m (2001), LE 12m (2002)	▪ Manufacturing and distribution of detergent. ▪ Plant at 10th of Ramadan City, Nr Cairo. ▪ Principally for low-end retail market in Egypt. ▪ Bulk supply to other detergent manufacturers in Egypt.. ▪ 49% stake in Suez Steel (but no management control), and 97% of shares in Universal Trucking.
Industrial Consumer Company SAE ("ICC")	Egypt	T/o LE 4m (2000), LE 39m (1999)	▪ Operation of a light bulb factory at 10th of Ramadan City, Nr Cairo. ▪ Factory largely non-operational – hostile business environment and major investment required.
Arab Steel Factory SAE ("ASF")	Egypt	Non-trading. T/o 1999 LE 220m	▪ Formerly operated steel billet factory at 10th of Ramadan City, Nr Cairo. ▪ Business and operating assets sold February 2000. ▪ Company not operational save only for recovery of proceeds of sale of business and settlement of outstanding liabilities. ▪ Issuer of LE 250m bond guaranteed by Banque du Caire. ▪ Guarantor of Eurobonds.
Amitrade for Commerce and Contracting SAE ("Amitrade")	Egypt	Non-trading. T/o 1999 LE 266m	▪ Formerly traded in iron and steel products and raw materials – supplier to, and distributor for, ASF. ▪ Ceased operation following sale of ASF business and assets. ▪ Dormant save only for some minor assets and liabilities to be settled.

The Group's strategy

Vision	Implementation
▪ Medical equipment and healthcare markets are central to the Group's future	▪ Create and retain a strong portfolio of agencies for major medical equipment manufacturers, seeking out and winning agencies for the dominant manufacturer in each sector. ▪ Maintain and increase focus on operations in Turkey, the Middle East and Northwest Africa. ▪ Operate internationally through sub-agents, closely monitoring sub-agents to ensure quality and delivery standards are maintained. ▪ Create a strong delivery team and deliver exceptional after-sales service, to build and maintain a strong user base. ▪ Plan, construct and maintain turnkey medical facilities – a key profit centre and outlet for medical equipment.
▪ Retention of remaining industrial interests in the short / medium term	▪ As anticipated in the prospectuses issued in 1999, the Group has exited the steel business through the sale of the business and operational assets of ASF. ▪ The Group retains 49% of Suez Steel, a manufacturer of sponge iron. No decision yet on whether and when to sell. ▪ Retention of IIC and ICC for at least the short / medium term. ▪ Where and when practicable, disposal of other non-core investments.

II Summary and recommendations

Overview of this Report

Key issues facing the Group

- The lack of liquidity in the economy has been a major contributor to the Group's difficulties.
- This has resulted in an inability for the Group to realise the proceeds of receivables from both public and private sectors.
- The action taken by Banque du Caire in February 2000 has reduced the Group's revenue potential.
- The depreciation of the Egyptian pound was and is likely to continue to substantially increase the effective liability of the Group in respect of the Eurobond.
- The Group is loss making and currently the core medical businesses cannot support the level of debt.
- The Group has invested resources in non-core activities that are illiquid.
- The Group is heavily dependent on and at risk from the lack of senior Group management to support Ramy Lakah.
- Financial management and accounting systems are very weak.

Key issues facing the Bondholders

- There are country, economic and political risks. Relations with the local banks are also vulnerable, particularly Banque du Caire. Consequently, the Group finds itself in a difficult position.
- The impact of the losses and lack of liquidity (both in the economy and from funds held by Banque du Caire not being available to the Group) has resulted in a highly geared Group. This has led to the Group's financial position being very weak.
- The terms of the Framework Agreement are not wholly clear. The Bondholders should be aware that in taking pledges of assets, there is a risk that the local banks may consider this to be in breach of the Agreement, although the Group does not consider that it is.
- The Group's financial management is extremely weak and since mid- 2000 formal reporting systems within the group have ceased.
- At present the Group is heavily reliant on Ramy Lakah. The majority of the Group board in place at the time of the Eurobond issue has been required to resign in accordance with the requirements of the Framework Agreement.

Responses from Group management

- The action taken by Banque du Caire was taken at a time when the Group was not in default under any of the terms and conditions of the Local Bonds. Considering this, the Group intends to seek a satisfactory resolution of this matter with Banque du Caire.
- In line with the Group's restructuring, a new CFO will be appointed and formal reporting re-established.

Options for the Bondholders

- Provide ongoing support conditional on implementation of undertakings regarding setting up of SPV, assignment of share of UN revenues, and pledging of investments; or
- Commence action for recovery under default provisions

II Summary and recommendations (continued)

Recommendations for the Group

- Seek resolution of impasse with Banque du Caire.
- Further develop international business.
- Set up an SPV to operate the international business.
- Secure the UN contracts under the Oil for Food Programme.
- Seek to conduct Egyptian and Egyptian Government business on the basis of terms and conditions appertaining prior to 2000.
- Continue efforts to collect receivables from public and private sector.
- Implement effective financial control processes and regular reporting.
- Realise long term investments and consider sale of non-core activities to pay down debt.

Recommendations for the Bondholders

- Provide ongoing support subject to the implementation of the Group's undertakings.
- Following receipt of the Group's detailed international revenue plan (for the SPV), consider need for rescheduling of the Eurobond.
- Monitor implementation.
- Require regular financial information. We suggest that this be quarterly.
- Seek strengthening of board and particularly the appointment of a CFO.

II Summary and recommendations (continued)

Management

The senior management team

- Ramy Lakah
- Senior Management of individual operating companies

Attributes and past track record of the team

- Strong focus on sales and growth
- Ability to deliver major projects
- Strong reputation in healthcare market
- Strongly competitive in chosen markets
- Excellent knowledge of ME, NORTHWEST Africa and Turkey medical equipment markets
- Good relationships with major equipment suppliers
- Built Group from small beginnings over 15 years

Management's plans for the business

- Emphasis on international business through overseas domicile
- Create liquidity through freeing up receivables and inventory
- Focus on healthcare market
- Sell investments over time to reduce debt burden
- Appoint a CFO and strengthen financial reporting

Knowledge and skills of the management team

- Good operational teams and trading skills – close to markets
- Ramy Lakah is an important and visible figure within Egypt
- Lack of executive directors to support Ramy Lakah at Group level

Our assessment of the management team

- Strong trading skills, backed by solid operational organisation
- Knowledge of markets and relationships with customers and suppliers
- One-man team outside operational areas – reliance on trading skills and trading connections of Ramy Lakah
- No effective CFO or effective deputy

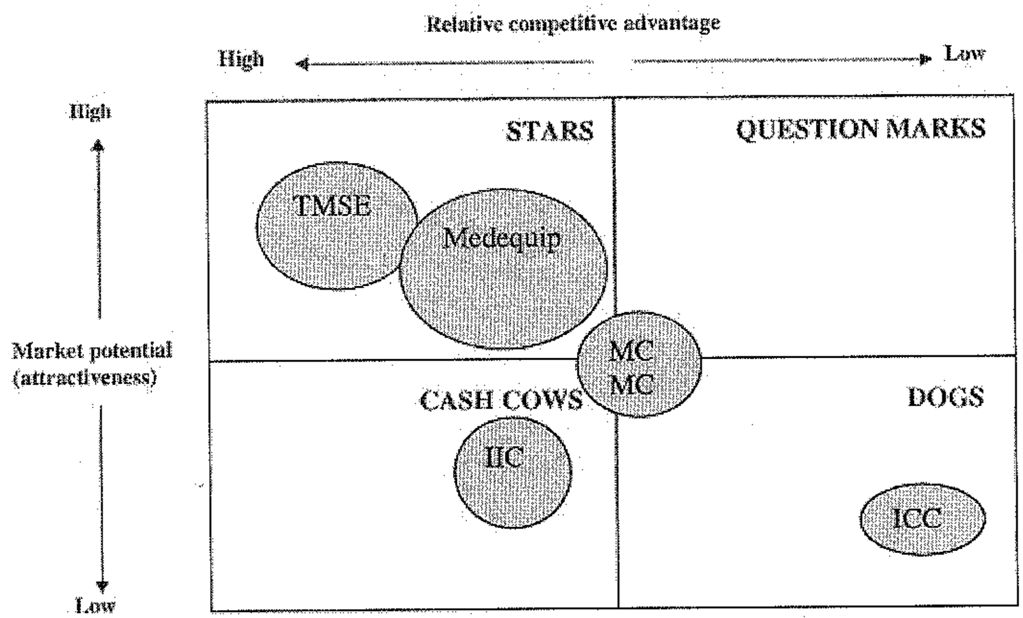
II Summary and recommendations (continued)

The Group's business and activities

Overview

- The diagram alongside sets out our assessment of the Group's portfolio of businesses. This assumes that the Egyptian economic situation improves over the next 18 months.

- The key group companies, Medequip and TMSE, are strongly positioned in their respective markets. They have significant opportunities in overseas markets, but are heavily reliant on winning new business in export markets to reduce over-reliance on Egyptian Government healthcare spending. TMSE is more strongly established outside Egypt and has greater immediate prospects.



- MCMC has a unique position as an operator of imaging services within Government-operated hospitals in Egypt. Whilst there is great demand from patients, it is heavily exposed to variations in Government spending. Its ability to grow and develop is almost wholly dependent upon Government policy; it cannot compete in the private sector without damaging the Group's relationships with medical equipment purchasers.

- IIC is a niche manufacturer in the detergent industry, without a strong brand. Demand is growing steadily and it has been able to grow output and market share. It has good prospects for growth in the short to medium term and is potentially a cash cow. It is not dependent on Government contracts but is facing risks of raw material shortages that could constrain its growth and ability to be profitable. It is not a natural fit in the group and should be sold when Group operating liquidity allows and when opportunity arises.

II Summary and recommendations (continued)

The Group's business and activities (continued)

- ICC has very limited prospects without significant investment. Investment was planned but due to the lack of financial resources this has not been possible to implement. It operates a light bulb factory, where there have been strikes and political/religious tensions and which remains heavily over-manned despite large reductions in staff. It is loss making and cash negative, requires investment in production facilities to become profitable and does not fit the current group focus on high technology medical equipment. It should be sold or closed.
- Other group companies are non-trading although, following the sale of ASF, certain receivables remain to be collected.

II Summary and recommendations (continued)

Assessment of the key features of the Group's business and competitive position

Key strategic areas	Relevant company	Our assessment of the Group's current position
Product markets served	Medequip, TMSE	▪ High technology medical equipment, particularly in the imaging field, in Egypt, Turkey, the Middle East and Northwest Africa.
	Medequip	▪ Construction and fitting out of turnkey hospitals in Egypt and the Middle East.
	MCMC	▪ Operation of medical imaging centres in Egypt.
	Medequip	▪ Other "utility" type high volume construction in Egypt.
	IIC	▪ Manufacture of household detergent in Egypt.
	ICC	▪ Manufacture of domestic light bulbs in Egypt.
The competitive environment	Medequip and TMSE	▪ For the medical equipment business, there is significant competition. ▪ Major manufacturers of imaging equipment, the most important part of its range, are all represented in the region. ▪ Siemens, Philips and GE are the major competitors to Toshiba and are variously represented by subsidiaries and agents. ▪ Subsidiaries of major multi-nationals have difficulties in operating in the local environment, and the agencies are of smaller size and more limited scope than the Group. ▪ However, product quality/service support is an important competitive driver and margins can be maintained if the product is right. ▪ For the turnkey hospital business, contracts are invariably won on competitive tenders. ▪ Competitors for the turnkey business are smaller and less experienced, and the Group is the market leader (albeit current activity is very low as result of the lack of Government spending).
The current competitive position – cost, product differentiation and focus	Medequip and TMSE	▪ The Group holds national/regional agencies for the sale and service of medical equipment and has significant opportunities in this field. ▪ The Group holds strong agencies for medical equipment – e.g. Toshiba, Olympus and Agilent – and has been offered others. ▪ The Group is heavily reliant on continuing flows of competitive products from the major manufacturers represented – at present, these are strong and it appears that the Group will have opportunities to add/change agencies to ensure a competitive portfolio. ▪ It is the largest medical equipment distributor in the region and has strong contacts with purchasers – primarily doctors and hospitals. ▪ It is the leading developer of turnkey hospitals in the region and has significant skills and track record. ▪ Its strong past track record and delivery of after-sales service are important differentiators. ▪ In the turn-key hospitals business, the Group's experience is that it is better able to deliver on quality, price and delivery.
Principal cost drivers	Medequip, TMSE, IIC	▪ For imported goods priced in US$, the exchange rate of the Egyptian Pound (and of other Middle East currencies) is a significant cost driver. ▪ The business is heavily reliant upon finance (as presently structured) and cost of finance is a major issue.
	IIC	▪ For the detergent plant, the cost of raw materials is a major issue (around 80% of COGS). Some are priced in US$.

II Summary and recommendations (continued)

Assessment of the key features of the Group's business and competitive position (continued)

- Overall, the Group has a strong track record in delivering, planning, sales and service support.
- It has achieved and maintained strong market shares in healthcare and turnkey hospitals markets.
- It has been able to retain all its existing portfolio of medical equipment agencies, principally in Egypt but also in the Middle East, Northwest Africa and Turkey. The Toshiba agency handled through TMSE is of particular importance.
- The potential opportunities for growth in the healthcare market include:
  - Expansion of international activities in the region – increase sales of medical equipment in Middle East and Northwest Africa excluding Egypt and Turkey.
  - Opportunities in the medical consumables market.
- The turnkey hospital business is primarily based in Egypt. Most projects are Government-funded and it is therefore extremely vulnerable to changes in Government plans and expenditure levels. That said, the Group considers it remains in a strong competitive position if opportunities are available.

II Summary and recommendations (continued)

Our assessment of the key group functions

Key functions reviewed	Our assessment of the Group's current position
Sales and marketing	▪ The Group has a strong position in the medical field in Egypt, for both turnkey hospitals and high tech medical equipment. ▪ It is in a good position elsewhere in the Middle East, Northwest Africa and Turkey but has lost momentum as a result of its present cash difficulties. ▪ The sales and marketing function has been a major focus within the Group and has a strong track record. ▪ Recent downsizing and wage cuts will have had an impact but this area is likely to remain strong.
Purchasing	▪ Most purchases are made direct from major manufacturers of high-tech medical equipment. ▪ As a result of the large swing in the economy, planning of purchases has been a significant problem which has led to excessive inventory.
Production	▪ The Group has production activities in IIC (the detergent factory) and ICC (the bulb factory). ▪ The detergent factory appears to be efficient, strongly managed and well organised. Management clearly understands their product and plant, and are using capacity effectively and taking opportunities to improve processes, increase capacities and reduce costs through short-term capital expenditure projects. ▪ We have not seen the bulb factory. For the majority of the period it was on strike. Its activities are not significant within the Group.
Financial management	▪ The lack of an effective CFO/Finance Director or Group Financial Controller results in inadequate financial management. ▪ All accounting is done either manually or on spreadsheets – there are no computerised accounting systems within the Group. ▪ Formal management reporting is lacking. ▪ Despite extreme pressure on cash flow, short term cash flow planning appears rudimentary and is done at a company level, and is not consolidated at Group level. ▪ The Group has established budgets in the past, but this has not been done regularly since June 2000. Projections referred to in this report were prepared as a one-off exercise.
Organisation and human resources	▪ At a company level, organisation and human resources are adequate.

- Overall, despite the difficulties, the Group has stressed to us that it has succeeded in retaining its key subsidiary management and operational personnel.

II Summary and recommendations (continued)

Recommendations to the Group

	Symptoms displayed by the Group	Suggested turnaround action
Adverse movements in exchange rates	▪ Egyptian Pound has devalued, from LE3.4/US$1 in early July 2000 to a current official rate of LE3.93/US$1. ▪ We understand that the rate continues to move adversely, and that current open market rates are in the region of LE4.10–4.15/US$1. ▪ This continues to increase the cost of sales – most goods sold by the Group are imported and priced in US$. ▪ All competitors are similarly affected, although some may have been able to delay impact through hedging. ▪ This has substantially increased the Eurobond liability.	▪ The Group has little effective means of controlling this risk in any one jurisdiction. ▪ Increase emphasis on international sales, to spread risk of currency devaluation across a number of jurisdictions. ▪ Match currencies of revenue streams and borrowings.
Changes in market demand	▪ The Group has been very adversely affected by the lack of liquidity in the Egyptian economy, which has significantly slowed sales, and payment of receivables from both public and private sectors. ▪ The Group has been particularly affected by the Egyptian Government's slow down in payments to suppliers.	▪ Increase emphasis on international businesses and to seek to conduct local business on terms similar to those pertaining prior to 2000.
Inappropriate financial policies	▪ Expansion has been financed by debt. ▪ US$ debt is not matched by US$ revenues.	▪ Establish US$ revenue businesses in separate operations, and match US$ revenue and debt and LE revenue and debt. ▪ Reduce bank lending in total through the sale of investments as opportunities allow and reduce investment in working capital.
Over-trading	▪ The Group has expanded rapidly and has out-run its financial management capabilities. ▪ The present situation is in part the result of a rapid expansion of the business largely financed by debt followed by a sharp reduction in market liquidity.	▪ Strengthen financial management procedures and controls. ▪ Ensure that strong and effective cash management accompanies growth in turnover.

II Summary and recommendations (continued)

Recommendations to the Group (continued)

	Symptoms displayed by the Group	Suggested turnaround action
Deficiencies in the management team	▪ The Group is very dependent upon Mr Ramy Lakah. ▪ The Group lacks an effective CFO. ▪ Group level Board meetings are held irregularly.	▪ Agree terms of reference for a CFO and appoint a suitable candidate as a matter of urgency. ▪ Hold Board meetings at fixed intervals with predetermined agenda.
Poor financial control	▪ No formal management accounts to enable company or Group management to effectively control the business. ▪ Since mid-2000 regular forecasts and projections not prepared.	▪ Permit CFO appointed to establish a finance department including appointment of qualified financial controllers at Group and company levels. ▪ Require projections to be prepared at company and Group level and updated six-monthly. ▪ Require formal management accounts to be prepared at company and Group level. ▪ At Board level, monitor actual performance against projections for each company and for the Group.
Poor working capital control	▪ Large inventories held. ▪ Large work in progress balances held. ▪ Long credit terms permitted to private sector.	▪ Ensure each company recognises the cost of capital as a key part of its cost structure. ▪ Avoid taking on long term financing of sales (implemented). ▪ Consider sale or return arrangements with major suppliers (implemented). ▪ Use all reasonable means to accelerate payments from Egyptian debtors. ▪ Focus on international business via SPV, to be done in cash or via back-to-back L/Cs.

II Summary and recommendations (continued)

Past trading results

	Year ended 31 December			
	1998 LE millions	1999 LE millions	2000 LE millions	Comments and main issues
Turnover	**674**	**1,227**	**468**	Reduction in Turnover due to cessation of ASF, Amitrade and Universal Trucking, following sale of ASF; inability to commence medical consumables business; and downturn in medical business due to economy.
Gross profit percentage	33.2%	36.1%	29.9%	
Gross profit	**224**	**443**	**140**	
Overheads	(42)	(110)	(103)	General & Administrative Expenses reduced in 2000 but offset by increase in Depreciation and Amortisation.
Provisions	(5)	(8)	(229)	Includes provisions against inventory LE 31m and receivables LE 189m
Interest expense (net of interest income)	(58)	(99)	(177)	LE 45m of the increase relates to the Euro Bond issue.
Capital gain	0	0	64	Capital gain on sale of the business and operating assets of Arab Steel.
Profit/(loss) before taxation	**119**	**226**	**(305)**	
Taxation	(21)	(50)	0	
Minority interests	(4)	(4)	6	
Dividends	0	0	0	
Profit/(loss) retained	**94**	**172**	**(299)**	

Source: Audited consolidated financial statements, Holding Company for Financial Investments (Lakah Group), SAE

II Summary and recommendations (continued)

Past trading results (continued)

- Sales grew by 82% from 1998 to 1999, largely in response to increased spending by the Egyptian Government on new medical facilities. From early 2000, Egyptian Government spending in this sector declined sharply in response to budgetary pressures and remains low.
- Gross profit has declined from 1999 to 2000 in response to the effect of exchange rate depreciation and increased competitive pressures but has remained at a relatively satisfactory level. This suggests that the businesses are firmly established in their market places and that price pressure is not a major issue.
- Overheads rose sharply from 1998 to 1999 as the Group geared up for what it perceived to be a long term increase in the level and scale of its activities. Action was taken in the latter part of 2000 and early 2001 to reduce overheads to a level more consistent with the reduced level of business, but is not reflected to any great extent in the total overheads for 2000.
- The Group's interest burden is now extremely high in proportion to EBIT, rising to LE 177 million in 2000. This is principally a reflection of both the increased local borrowing consequent upon a very large increase in working capital following the slow down in payments of receivables in the Egyptian economy as a whole, and the interest on the US$ Eurobond issue.
- Turnover in 2000 from continuing businesses totalled LE 430 million.

Past cash flows

	Year ended 31 December 1998 LE millions	1999 LE millions	2000 LE millions	Aggregate cash flow 1998 - 2000
Net cash from operations before changes in working capital	125	260	-82	303
Changes in working capital				
Changes in inventory and work in progress	-304	-251	-185	-740
Change in short and long term receivables	-679	-471	-194	-1,343
Change in creditors and credit balances, provisions and current debt	230	-109	-2	118
	-753	-831	-381	-1,964
Net cash from operating activities	**-628**	**-571**	**-463**	**-1,661**
Cash used for investment				
Change in fixed assets and projects under construction	-561	14	398	-148
Change in long term investments	-262	-372	11	-623
Change in time deposits	0	-139	-16	-155
Change in notes receivable - long term balances	0	0	-192	-192
Change in goodwill and other assets	-380	-4	0	-384
	-1,203	-501	202	-1,502
Net cash from operations and investments	**-1,831**	**-1,072**	**-261**	**-3,163**
Financed by:				
Change in paid up share capital	1,150	350	0	1,500
Change in issued bonds	250	400	0	650
Change in long term loans, bank balances and cash	379	79	190	648
Change in creditors - long term balances	14	265	70	348
Change in minority interest	39	-22	0	17
Net financing	1,831	1,072	260	3,163

- Source: The above summarised cash flow for the three years to 31 December 2000 (covering the period since incorporation of Lakah Funding Limited) has been taken from the Group's audited financial statements. Due to some reclassifications by the Group's auditors, not all the categories can be directly agreed to the Group balance sheet.

II Summary and recommendations (continued)

Past cash flows (continued)

- Operations generated net cash of LE 303 million. However, investment in working capital has increased by LE 1.96 billion, the principal components being an increase in receivables of LE 1.34 billion and of inventory and work in progress of LE 740 million.
- The Group has not been able to take extended credit from suppliers. Substantially all of its purchases are made either for cash or on letters of credit.
- Aggregate turnover in the three years was LE 2.37 billion. Only 43% of turnover was actually paid for; the balance of 57% remained as receivables at 31 December 2000.
- Investments increased by LE 1.5 billion, the principal item being an increase in long-term investments. This is one of the key reasons for the Group's difficulties.
- The principal sources of finance were issues of share capital, primarily financing the investing activities, issues of local bonds (LE 650 million) and Eurobonds (LE 340 million at LE3.4/US$) and loans and advances from banks (LE 648 million).
- The key issue for Bondholders is whether, and if so to what extent, the cash flow tied up in working capital can be realised and made available to pay down debt, including the increased LE cost of the Eurobonds following the devaluation of the Egyptian pound.

II Summary and recommendations (continued)

Recent balance sheets

	31/12/1998 LE millions	31/12/1999 LE millions	31/12/2000 LE millions	Comments and main issues
Long term assets				
Time deposits	0	139	155	Blocked deposits to secure repayment of local bonds.
Notes receivable	0	0	192	Notes receivable from sale of ASF held by Banque du Caire. Proceeds will go into blocked deposits.
Accounts receivable – long term	168	289	307	Accounts receivable – rescheduling agreements with debtors agreed for settlement in 2002.
Long term investments	262	634	619	Comprises investments in a medical equipment joint venture and 49% interests in Suez Steel and Arab Cast Iron & Steel Factory, and in own shares.
Fixed assets	395	472	371	Reduction reflects sale of ASF fixed assets.
Projects under construction	165	58	10	
Goodwill	248	251	50	Goodwill reduced to amount agreed with Capital Markets Authority.
Deferred expenses	38	28	0	
	1,276	1,871	1,704	
Current assets				
Inventory	195	431	533	LE 301m represented by medical equipment, of which LE183m re-sold to suppliers in Q1 2001 at 10% discount.
Work in progress	109	124	176	Mainly hospitals under construction, fit out, and equipping.
Debtors – short term balances	506	850	836	Includes LE 220m of short term receivables not forecast to be collected until 2002.
Cash and cash equivalents	18	98	15	
	829	1,503	1,560	

II Summary and recommendations (continued)

Recent balance sheets (continued)

	31/12/1998 LE millions	31/12/1999 LE millions	31/12/2000 LE millions	Comments and main issues
Creditors due within one year				
Due to Banks	172	239	70	Reflects rescheduling from short term to long term liabilities of loans from local banks in accordance with Framework Agreement.
Current portion – long term debt	36	48	0	
Creditors (short term) including other credit balances	192	76	167	
Provisions	23	67	22	Provisions for corporate and other tax claims.
	423	430	259	
Net current assets/(liabilities)	406	1,073	1,301	
Creditors due after one year				
Long term loans	225	320	595	Local bank loans rescheduled in accordance with Framework Agreement.
Bonds	250	650	650	Local bonds guaranteed by Banque du Caire.
Euro Bond and other long term liabilities	13	278	348	Euro Bond LE 340m. (If converted at actual exchange rate prevailing at 31 December 2000 Euro Bond liability was LE 387 million).
	488	1,248	1,593	
Minority interests in subsidiaries	43	25	20	
Shareholders' funds	1,151	1,671	1,392	

- Source : Audited consolidated financial accounts

- In Section V we provide a commentary on the 2000 balance sheet, and comment on the extent to which further provisions and write-offs may be required. We summarise below some of the more significant matters arising from our review.

II Summary and recommendations (continued)

Recent balance sheets (continued)

- The balance sheet is very illiquid. The Time Deposits and Notes Receivable are not available to the Group, and collections of the majority of Receivables have been rescheduled to Q4 2001 and 2002.
- Provisions against receivables of LE 189 million were raised in 2000, of which LE 111 million were in ASF and Amitrade. Most of the remaining provisions were against Medequip (LE 48 million) and TMSE (LE 24 million).
- In Section V we comment in detail upon Medequip and TMSE's receivables. In summary, for private sector receivables the Group have entered into individual rescheduling agreements with each customer based on their expected cash flows, with the result that most of the amounts are now expected to be collected in 2002. The Government's lack of funds has prevented it paying its debts on time. However, the Group is confident that when the Government has the funds the receivables will be paid.
- As a result, the Group is strongly of the view that the receivables will be collected although they acknowledge there is uncertainty on timing, particularly as regards the Government debts.
- Our review of the individual balance sheets has revealed a number of sundry receivables, debit balances and inventories that are unlikely to be realisable and should provided against. These total LE 57 million.
- Goodwill in the 2000 balance sheet includes a write-down of LE 200 million against goodwill. Of this, LE 45 million was transferred to Sundry Debit balances. This should be written off.
- Long term investments comprise several investments including the Group's 49% interests in Suez Steel and Arab Cast Iron & Steel Factory. We have not seen financial statements for these companies. We understand that negotiations are taking place for the sale of the interest in Arab Cast Iron & Steel at around LE 80 million. This investment is carried at LE 120 million. The Group estimates the value of its investment in Suez Steel at LE 100 million, which compares to its balance sheet value of LE 53 million.

II Summary and recommendations (continued)

Recent balance sheets (continued)

- Long term investments also include an amount of LE 134 million in respect of the buy-back of the Group's shares to support the share price. This amount should be deducted from net assets rather than being carried as a long-term investment.
- Also included in investments is an investment of LE 305 million in a Joint Venture with Seastar Industries Inc to sell medical equipment overseas. In the first year of the JV the Group has earned income of approximately US $ 12 million.
- Inventories include LE 183 million of equipment re-sold to suppliers in Q1 2001 at a 10% discount. This loss was not recognised in the 2000 financial statements.
- Ramy and Michel Lakah have assigned a debt of LE 45 million from MidWest Airline to the Group. Collection of this debt is dependent upon resolution of a dispute concerning a transaction under which MidWest acquired an aircraft. The Group considers this matter can be resolved. Further details of this are set out in Section V.
- Following a discussion with Group's tax consultant, there would appear to be a need for additional provisions in respect of taxes of LE 12.35 million.
- The impact of the possible additional provisions on the 2000 Group balance sheet that following our review we consider may be necessary, total LE 110 million. In addition to the impact of these provisions, the Group's net assets will reduce by the effect of treating the share buy-back as a reduction in net assets, and the writing off of the Sundry Debtor arising from reducing goodwill.
- The total impact of these adjustments would be to reduce net assets at 31 December 2000 by LE 295 million from LE 1,392 million to LE 1,097 million.

II Summary and recommendations (continued)

- The various additional provisions that we consider may be required can be summarised as follows:

	Millions LE
Medequip short term balances	30
Amitrade Receivables and other debit balances	10
Investment in Arab Cast Iron & Steel	40
Provision for slow moving stock	7
Other inventories	10
Tax provision	13
Legal provision	6
	116

II Summary and recommendations (continued)

Projected results to 31 December 2002

	Actual		Projected		
	Year ended 31 December 1999 LE millions	Year ended 31 December 2000 LE millions	Year to 31 December 2001 LE millions	Year to 31 December 2002 LE millions	Comments and main issues
Turnover	**1,227**	**468**	**520**	**422**	2001 includes LE 160m of inventory resold to suppliers in Q1 2001.
Gross profit percentage	36.1%	29.9%	13%	25%	2001 GP% distorted by 10% loss on sale of above inventory. Excluding this margins are in line with 2000.
Gross profit	**443**	**140**	**68**	**105**	
Overheads	(110)	(103)	(42)	(44)	Medequip and TMSE have reduced overheads by relocating and reduction in personnel.
Provisions	(8)	(229)	(32)	(21)	Contingency provisions. Provide considerable additional prudence to the projections.
Other income			5	6	
Capital gain	0	64	0	0	
Profit/(loss) before interest and taxation	**325**	**(128)**	**(5)**	**46**	
Interest expense (net of income)	(99)	(177)	(192)	(176)	Interest on local and Euro Bonds (based on LE 4.0/US$1) and local borrowings net of interest income.
Taxation	(50)	0	0	0	
Profit/(loss) retained (before minority interests)	**176**	**(305)**	**(197)**	**(130)**	